

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Notice of Market Dominant  
Price Adjustment

Docket No. R2018-1

PUBLIC REPRESENTATIVE COMMENTS ON  
NOTICE OF MARKET DOMINANT PRICE ADJUSTMENT

(October 26, 2017)

I. INTRODUCTION

On October 6, 2017, the Postal Service filed notice of a Type 1-B market dominant rate adjustment.<sup>1</sup> In accordance with Order No. 4153,<sup>2</sup> the Public Representative submits comments on the proposed price adjustment.

Public comments on rate adjustment filings “should focus primarily on whether the planned rate adjustments” are at or below (1) the annual limitation calculated under 39 C.F.R. §§ 3010.21 or 3010.22, and (2) the limitation of unused rate adjustment authority under § 3010.29. 39 C.F.R. § 3010.11(b). “Public comments may also address other relevant statutory provisions and applicable Commission orders and directives.” 39 C.F.R. § 3010.11(c).

As the Postal Service notes, the Commission’s ten-year review of the current ratemaking system is pending (Docket No. RM2017-3) and this may be the last price adjustment reviewed under the current system. Nevertheless, these comments will focus on the rate adjustment’s compliance with the price cap and banked authority provisions as currently constructed.

Part II of these comments addresses the proposed price adjustment’s compliance with the annual limitation and unused authority, as well as issues with particular products. Part III addresses workshare discounts, focusing on passthroughs

---

<sup>1</sup> Notice of Market Dominant Price Adjustment, October 6, 2017 (Notice).

<sup>2</sup> Notice and Order on Rate Adjustments and Classification Changes for Market Dominant Products, October 10, 2017 (Order No. 4153).

in excess of 100 percent. Part IV discusses the proposed mail preparation change for pallets.

## II. ANNUAL LIMITATION AND UNUSED (BANKED) AUTHORITY

The annual limitation on the percentage change in prices is equal to the change in the Consumer Price Index for All Urban Consumers over the most recent 12-month period. 39 U.S.C. § 3622(d)(1)(A). The limitation applies to each class of mail. § 3622(d)(2)(A). The percentage of the annual limitation not used by each mail class in the previous market dominant rate case is referred to as Postal Service's "banked" authority. § 3622(d)(2)(C).<sup>3</sup> The sum of these two values is the total available price cap space for each market dominant class. For this rate adjustment, the annual limitation is 1.987 percent for Periodicals and Package Services, and 0.439 percent for First-Class Mail, USPS Marketing Mail, and Special Services.<sup>4</sup>

The Postal Service's proposed price adjustments do not exceed the price cap authority in any mail class. The proposed price adjustments also do not use more than 2 percentage points of banked authority for any class of mail in any 12 month period. The prices reflect the discontinuation of Calendar Year 2017 promotions, which are subsumed in the price change percentages for First-Class Mail and USPS Marketing Mail. Notice at 29.

The Notice and supporting workpapers show that the proposed price adjustment complies with the requirements of 39 U.S.C. § 3622 and 39 C.F.R., part 3010. The Public Representative finds the Postal Service's price changes for individual products produce percentage point changes at the class level equal to or less than the total available price cap space for each market dominant class of mail. The Public Representative therefore limits the discussion of price changes to individual products warranting further comment.

---

<sup>3</sup> The Postal Service may not use more than 2 percentage points of banked authority for any class of mail in any 12 month period. § 3010.29.

<sup>4</sup> 0.439 percent is the percentage change since R2017-7, which changed the rates for First Class Mail, Marketing Mail and Special Services. See Docket No. R2017-7, Order Approving Price Adjustment and Classification Changes Related to Move Update Assessment, August 23, 2017, at 1-4 (Order No. 4059).

A. *First-Class Mail*

1. Domestic Stamped Single-Piece First-Ounce

The Postal Service states that it is “applying an above-average increase to this price because of the rounding constraint for stamps.” Notice at 9. The Public Representative calculates that the Postal Service proposal to increase this product by 1 cent, from 49 cents to 50 cents, amounting to a 2.041 percent increase. The Public Representative confirms the calculation of the percentage increase, though it differs slightly from the Postal Service’s text in its Notice due to rounding.<sup>5</sup>

2. First-Class Mail International

The Postal Service states that it has adjusted billing determinants for Outbound Single-Piece First-Class Mail International due to a change in Universal Postal Union (UPU) regulations for letter post. Notice at 10. The UPU regulation requires letter post containing “goods”, to be enclosed as “E format” bulky letters and small packets, rather than enclosed in “P” and “G” formats for small and large letters, respectively. *Id.*

The Postal Service states it intends to “implement this UPU mandate by changing the International Mail Manual (IMM) to prohibit goods from being included within First-Class Mail International pieces.” *Id.* It justifies its proposed action as “consistent with the logic of Rule 3010.23(d)(4), which states that, ‘[f]or an adjustment accounting for the effects of the deletion of a rate cell when an alternate rate cell is not available, the Postal Service should adjust the billing determinants associated with the rate cell to zero.’” Notice at 11. While the Postal Service does not propose to delete any First-Class Mail International rate cell, it removes approximately 9.1 million “goods” mailpieces in First-Class Mail International billing determinants.

The result of this volume removal is unique. The Public Representative acknowledges that where a rate cell is deleted, the volume for that rate cell should be adjusted to zero if there is no alternative rate cell. 39 C.F.R. § 3010.23(d)(4). However, the proposed price adjustment does not remove a rate cell for Outbound Single-Piece First-Class Mail International. This is because the rate cells are determined by size, weight, and country code. Here, the volume migration is based not on any of those

---

<sup>5</sup> See Notice at 9 and USPS-LR-2018-1/1, CAPCALC-FCM-R2018-1.xlsx, Worksheet: “Single-Piece Letters.”

factors but by whether the mailpiece contains goods. The Postal Service states that there is no alternative product on the market dominant product list to cover this volume, and the Public Representative confirms that there is no existing market dominant product that can satisfy the new UPU requirement for E-format letter post.<sup>6</sup> The volume of outbound letter post containing goods can be accommodated by existing Postal Service offerings on the competitive products list. See Notice at 10.

The Commission's rules list certain criteria for Postal Service requests to transfer products from the market dominant to competitive products lists. 39 U.S.C. § 3020, Subpart B. Those rules do not apply here because there is no product transfer, only a transfer of billing determinants for letters and flats containing goods. The Commission should nevertheless be mindful of whether small businesses and retail customers would be harmed by requiring them to send goods currently allowed in letters and flat-shaped mail by competitive products.<sup>7</sup> While the focus of this docket is not on competitive products, the Public Representative notes that the Postal Service also has an obligation to show that the competitive products to which the former market dominant volume has been transferred will likely continue to cover their attributable costs.<sup>8</sup> 39 C.F.R. § 3015.7(b). The Public Representative does not suggest that the Postal Service's approach is necessarily improper, but urges the Commission to consider whether the zeroed volume should be added to competitive products as a matter of course.

#### B. *Periodical Mail*

The Postal Service notes that although Periodicals did not cover attributable costs in Fiscal Year 2016,<sup>9</sup> it took several steps to increase cost coverage in this proceeding by: increasing certain prices for trays and sacks, maintaining the strategy of

---

<sup>6</sup> Outbound Single-Piece First-Class Mail International includes only letters, postcards, and large envelopes (flats). Mail Classification Schedule, Part A, 1125.

<sup>7</sup> The Public Representative does not ignore the possibility that the composition of retail domestic mailers is such that they would find competitively priced alternatives from other providers of international mail, but believes the Commission should investigate this possibility further.

<sup>8</sup> In Docket No. CP2018-8, the Commission is considering the Postal Service's Notice of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision Nos. 16-8 and 16-10, October 6, 2017.

<sup>9</sup> Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 42. (FY 2016 ACD)

setting bundles and pallet containers closer to bottoms up costs, and changing prices to encourage preparation of more carrier route bundles. Notice at 23-24. The Public Representative commends the Postal Service for taking the steps to improve coverage despite the limitations of doing so for this class.

### III. WORKSHARE DISCOUNTS

#### A. *First-Class Mail and Package Services*

In the FY 2016 ACD the Commission directed the Postal Service to align the following six First-Class Mail discounts with avoided costs:

- Automation AADC Letters
- Automation Mixed AADC Cards
- Automation AADC Cards
- 5-Digit Automation Cards
- Automation ADC Flats
- Automation 3-Digit Flats

FY 2016 ACD at 12-15. For a seventh discount – Automation 5-Digit Flats – the Commission found the excessive passthrough justified, but directed the Postal Service to implement a proposed plan to reduce the discount by 5 percentage points at each price adjustment, until the discount was equal to or less than avoided costs. *Id.* at 15.

The Commission also directed the Postal Service to align the following six Package Services discounts with avoided costs:

- BPM Flats DNDC dropship
- BPM Flats DSCF dropship
- BPM Flats DDU dropship
- BPM Parcels DNDC dropship
- BPM Parcels DSCF dropship
- BPM Parcels DDU dropship.

*Id.* at 40. The Commission also identified excessive discounts for Media Mail Basic presorting and Library Mail Basic presorting, but found the passthroughs justified because the product qualifies for educational, cultural, scientific, and informational value (ECSI).

The proposed price adjustments satisfy the Commission's directives for First-Class Mail and Package Services Workshare discounts. All First-Class Mail workshare discounts – including the discount for Automation 5-Digit Flats – are equal to or below avoided costs. Notice at 12. All Package Services discounts – including the discounts for Media Mail/Library Mail Basic presorting – are equal to or below their avoided costs. *Id.* at 26.

The Postal Service's efforts in aligning workshare discounts with avoided costs are commendable. Aligning the discounts for Automation 5-Digit Flats and for Media Mail/Library Mail are voluntary changes that go beyond the specific ACD directives for the First-Class Mail and Package Services classes, and advance the goal of moving toward efficient component pricing.

**B. *USPS Marketing Mail and Periodicals***

The FY 2016 ACD identified 19 USPS Marketing Mail discounts with passthroughs greater than 100 percent. In its extant filing, the Postal Service shows that the proposed price adjustments reduce the number of excessive discounts to 11. See Notice, Table 9 at 16. The Public Representative accepts most of the Postal Service's arguments in the worksharing section on USPS Marketing Mail, but not all of them.

For example, the Postal Service justifies the 650 percent passthrough for Automation Mixed AADC Letters by reference § 3622(e)(2)(D), which allows excessive passthroughs in order to promote mail efficiency. While the passthrough is less than the 800 percent passthrough in the FY 2016 ACD, it is substantially higher than the 325 percent passthrough established after the ACD, in R2017-1.<sup>10</sup> The proposed passthrough does not demonstrate continued improvement, and it is difficult to see the need for a 600 percent passthrough to encourage barcoding, when 325 percent was sufficient a year ago.

The Postal Service justifies the DNDC and DSCF Dropship Letters passthroughs pursuant to § 3622(e)(2)(D), which refers to the rate shock which would occur if the discount were reduced by raising the benchmark product's price to make the passthrough equal to 100 percent. For this to occur, it would be necessary to increase

---

<sup>10</sup> PRC-LR-R2017-1-2, PRC-WORKSHARE-STD17.xlsx, Worksheet: "Standard Mail Letters."

the price of Origin Letters of \$0.227 by \$.005 – a 2 percent increase. Similarly, for DSCF Letters, it would be necessary to increase the price of Origin Letters by \$.009 – a 4 percent increase. In Docket No. R2017-1, the Postal Service proposed, and the Commission approved, higher passthroughs for these two products under § 3622(e)(2)(D), even though the passthroughs were already higher at the time, and benchmark prices would have needed to increase by 4 and 6 percent respectively. The percentage rate increase measuring potential rate shock in R2017-1 was double the percentage increase required in this price adjustment.<sup>11</sup> The Public Representative believes the exception may be justified, but urges the Commission consider the substantially reduced percentage increase required for benchmark prices when determining whether these passthroughs qualify for the rate shock exception in this proceeding.

The Public Representative agrees with the Postal Service that the excessive passthrough associated with Automation Mixed AADC flats would improve efficiency, because the passthrough is only 212.8 percent, compared to 253.8 percent for Automation Mixed AADC Flats in R2017-1. The same is true with regard to excessive Parcels passthroughs.<sup>12</sup>

The Public Representative also agrees with the Postal Service that although Carrier Route, High Density, and Saturation Letters passthroughs are above 100 percent, they have been reduced, which shows an effort to improve this aspect of the rate structure. Notice at 19-21.

The proposed price adjustment includes ten Periodicals workshare discounts which exceed avoided costs – three fewer than in the FY 2016 ACD. The Postal Service states that the remaining discounts exceeding avoided costs are justified by the statutory exemption for mail matter of educational, cultural, scientific, or informational value (ECSI). Notice at 25. The Commission has found that because the Periodicals class consists exclusively of ECSI mail, those discounts that exceed avoided costs are justified by 39 U.S.C. § 3622(e)(2)(C). FY 2016 ACD at 18. The proposed price

---

<sup>11</sup> PRC-LR-R2017-1-2, PRC-WORKSHARE-STD17, Worksheet: “Standard Mail Letters.”

<sup>12</sup> See Docket No. R2017-1, USPS Notice of Market Dominant Price Adjustment (October 12, 2016), at 48-50.

adjustments bring many of the Periodicals discounts closer to avoided costs, and the improvements in passthroughs should “increase contribution and cost savings to the Postal Service.” *Id.* Overall, the proposed price adjustment moves passthroughs for workshare discounts in the proper direction.

#### IV. MAIL PREPARATION CHANGE

The Postal Service is proposing price changes designed to “increase the preparation of USPS Market Mail and Periodicals Carrier Route Bundles on 5-Digit Carrier Route pallets.” Notice at 30. It has long been known that the entry of Carrier Route Bundles on 5-digit Pallets is the most efficient method of flats entry in non-FSS zones.<sup>13</sup> The Postal Service’s Current Domestic Mail Manual (DMM) requires mailers of USPS Marketing Mail Flats and mailers of Periodical Flats to prepare their mail on higher priced 5-Digit merged pallets first,<sup>14</sup> with residual bundles being placed on lower-priced, 5-digit “Carrier Route Only” pallets (“Pure Carrier Route Pallets”). *Id.* The Postal Service proposes to require the aforementioned flats mailers to first prepare their mail on lower-priced, Pure Carrier Route Pallets.

This change will adopt the most efficient method of preparing flats mail in non-FSS zones, resulting in reduced costs of sending Periodical Mail, making this a much-needed change. For these reasons, the Public Representative supports this modification.

---

<sup>13</sup> See, e.g., Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 22 (FY 2015 ACD). “[T]he Postal Service notes that ‘[b]y moving Carrier Route bundles from [sectional center facility (SCF)] pallets to Carrier Route pallets, the Postal Service would avoid a bundle sort, thus saving 55 cents per bundle.’”

<sup>14</sup> The merged mail language in the DMM requires mailers to merge several types of mail onto the same five-digit pallet; including: carrier route bundles of flat-size or irregular parcel mail pieces; no carrier route five-digit bundles of flat-size mail pieces not meeting the criteria for the automated flat-sorting machine 100; and no carrier route five-digit bundles. Domestic Mail Manual, section 705.8.10.2, <https://pe.usps.com/text/dmm300/705.htm#ep1380958> (last visited October 24, 2017).



Respectfully submitted,

Lee McFarland  
Public Representative

901 New York Avenue, NW  
Suite 200  
Washington, D.C. 20268-0001  
(202) 789-6833  
lee.mcfarland@prc.gov

Lawrence Fenster  
Public Representative Technical Staff